

Message Text

CONFIDENTIAL

PAGE 01 LISBON 01952 01 OF 02 111457Z
ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 PM-04 H-01 INR-07 L-03 NSAE-00
NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06 AID-05 EB-08
TRSE-00 STR-04 OMB-01 CEA-01 COME-00 SIL-01 LAB-04
DHA-02 /084 W

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R 111238Z MAR 77
FM AMEMBASSY LISBON
TO SECSTATE WASHDC 0511
INFO AMEMBASSY BONN
AMEMBASSY LONDON
AMEMBASSY MADRID
AMEMBASSY MOSCOW
AMCONSUL OPORTO
AMEMBASSY PARIS
AMCONSUL PONTA DELGADA
USMISSION NATO
DIA WASHDC
USCINCEUR VAIHINGEN GER

C O N F I D E N T I A L SECTION 1 OF 2 LISBON 1952

E.O. 11652: GDS
TAGS: PINT PO
SUBJECT: PSD: SA CARNEIRO AND SOARES BUDDIES AGAIN

REF: (A) LISBON 1355 (DTG 171440Z FEB 77), (B) LISBON 1554
(DTG 271442Z FEB 77), (C) LISBON 1751 (DTG 041802Z MAR 77)

SUMMARY: SA CARNEIRO IS CURRENTLY PLEASED WITH WHAT HE
PERCEIVES TO BE AN EMERGING PSD-SOCIALIST ALIGNMENT. THE
PSD WILL SUPPORT SOARES'S RECENTLY INSTITUTED ECONOMIC
PACKAGE. THE SOCIAL DEMOCRATS AND SOCIALISTS HAVE ALSO
AGREED ON LEGISLATION DEFINING PUBLIC SECTOR LIMITS, AND
ARE WORKING ON A PROGRAM FOR COMPENSATING NATIONALIZED
COMPANIES. SA CARNEIRO SEES PSD PROGRAM IN LABOR AREA
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PAGE 02 LISBON 01952 01 OF 02 111457Z

AS A POTENTIAL TOOL FOR STRENGTHENING THE MAINSTREAM,
SOARES WING OF THE SOCIALIST PARTY AND FOR
EVENTUALLY LAYING THE GROUNDWORK OF A LARGER SOCIAL
DEMOCRATIC PARTY. HE AGREES WITH EANES AND SOARES
THAT THE PORTUGUESE COMMUNISTS ARE MOVING TOWARDS
AN ALL-OUT OFFENSIVE.
END SUMMARY.

1. PSD/PS COLLABORATION: I HAD LENGTHY CONVERSATION MARCH 10 WITH PSD LEADER SA CARNEIRO AT HIS INITIATIVE. SA CARNEIRO'S HESITANT APPROVAL OF SOCIALIST PARTY ECONOMIC POLICIES REPORTED REFTEL (A) HAS MOVED TO UNSTINTING "SUPPORT OF MARIO SOARES'S WING OF THE PS." SA CARNEIRO WAS AS EFFUSIVE TOWARDS SOARES AS HE HAS BEEN AT ANY TIME I HAVE SEEN HIM SINCE THE IMMEDIATE POST APRIL 1976 PARLIAMENTARY ELECTION PERIOD.

2. RECENT ECONOMIC MEASURES: SA CARNEIRO SAID HE HAD NOT BEEN CONSULTED BY SOARES ON THE "ECONOMIC PACKAGE" (REFTEL B) UNTIL THE DAY OF ITS PROMULGATION. DESPITE THIS, AND DESPITE HIS BELIEF THAT THE PR COULD HAVE BEEN BETTER HANDLED BY SEPARATING SOME OF THE PIECES, AND DESPITE HIS MUTED PUBLIC CRITICISM, SA CARNEIRO SAID HE INTENDS TO GIVE THE GOP ECONOMIC POLICIES HIS FULL SUPPORT. WITH THE PCP LINE HARDENING (SEE BELOW), IT WAS ESSENTIAL THAT THE DEMOCRATIC PARTIES STICK TOGETHER. THE PSD COULD PLAY A UNIQUE ROLE IN STRENGTHENING THE SOARES WING OF THE PS AGAINST THE EXTREMISTS WITHIN THE SOCIALIST PARTY. SA CARNEIRO EVEN WENT SO FAR AS TO SAY HE THOUGHT THE CDS WAS NOW "JEALOUS" OF THE EMERGING COOPERATION BETWEEN SOCIALISTS AND HIS PSD. EVENTUALLY, HE THOUGHT THIS RELATIONSHIP COULD LEAD TO ONE LARGE SOCIAL DEMOCRATIC PARTY IN PORTUGAL AND "HE (SA CARNEIRO) WAS PREPARED TO PLAY A SUBORDINATE ROLE TO MARIO SOARES IN SUCH A PARTY."
CONFIDENTIAL

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PAGE 03 LISBON 01952 01 OF 02 111457Z

3. SPECIFIC AREAS OF COLLABORATION: SA CARNEIRO'S GOOD SPIRITS SEEM TO HAVE BEEN PRECIPITATED PRINCIPALLY BY THE AGREEMENT BETWEEN THE PSD AND THE SOCIALISTS ON LEGISLATION DEFINING THE LIMITS OF PUBLIC SECTOR ACTIVITY, A SUBJECT SA CARNEIRO STRESSED IN OUR LAST CONVERSATION (REFTEL A). SOCIALISTS AND PSD HAVE, HE SAID, DEVISED AN INTERIM SOLUTION TO THE BANKING PROBLEM BY LIMITING THE PRIVATE BANKS TO INVESTMENT BANKS, AND AGREEING THAT THIS QUESTION COULD BE REOPENED AS SOON AS IT WAS POLITICALLY FEASIBLE. FOLLOWING THIS AGREEMENT, THE PSD MADE PROPOSALS ON COMPENSATING STOCKHOLDERS IN NATIONALIZED COMPANIES, AND HE FELT SURE THIS PROPOSAL WOULD RESULT IN AN ANOTHER AGREEMENT WITH THE PS. THE PSD WAS ALSO WILLING TO ACCEPT SOARES'S INVITATION TO JOIN HIM IN HIS PRESENTATION TO THE EEC IN BRUSSELS (SOARES HAD PREVIOUSLY TOLD ME HE INTENDED TO ISSUE SUCH

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PAGE 01 LISBON 01952 02 OF 02 111447Z

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C O N F I D E N T I A L SECTION 2 OF 2 LISBON 1952

AN INVITATION TO THE CDS AND PSD), BUT THE CDS HAS REFUSED, THEREBY UNDERMINING WHAT COULDHAVE BEEN AN IMPORTANT MOVE TO ISOLATE THE COMMUNISTS FURTHER.

4. LABOR ACTIVITIES: I COMPLIMENTED SA CARNEIRO ON PSD PROGRESS IN THE LABOR AREA AND ASKED HIM IF HIS IMPROVED RELATIONSHIP WITH SOARES HELD OUT THE HOPE FOR JOINT EFFORTS IN UNION ELECTIONS. I SPECIFICALLY ASKED ABOUT THE FORTHCOMING BANK WORKERS ELECTION. SA CARNEIRO SAID THE PSD CONTINUES TO OFFER ITS COLLABORATION TO THE SOCIALISTS AND TO ACCEPT THE GOOD WILL OF SOARES. HOWEVER, HE SAID, PS LABOR POLICIES CONTINUE IN A STATE OF CHAOS. IN
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PAGE 02 LISBON 01952 02 OF 02 111447Z

THE LISBON BANK WORKERS UNION, FOR EXAMPLE, THE INCUMBENT SOCIALIST LEADERSHIP COULD NOT EVEN AGREE ON A SLATE ACCEPTABLE TO MANY SOCIALIST BANK EMPLOYEES; CONSEQUENTLY THE MAJOR STRUGGLE IS BETWEEN THE PSD AND THE PCP. SA CARNEIRO THOUGHT THAT A PSD VICTORY IN THE BANK WORKERS ELECTION WOULD GIVE SOARES ENOUGH LEVERAGE TO FORCE HIS SUBORDINATES TO COLLABORATE WITH THE PSD.

5. PCP STRATEGY: I ASKED SA CARNEIRO IF HE AGREED WITH THE ASSESSMENT OF A NUMBER OF PEOPLE THAT THE PCP WAS MOVING TOWARDS AN ALL-OR-NOTHING POLICY. SA CARNEIRO SAID THAT BOTH EANES AND SOARES HAD EXPRESSED CONCERN TO HIM ALONG THESE LINES (REFTEL C). HE AGREED FULLY; HE HAD WARNED OF SUCH A STRATEGY A LONG TIME AGO. HE SAID THERE WAS NO QUESTION THAT THE PCP WAS FOLLOWING MOSCOW'S DICTATES, AND THAT MOSCOW WOULD PREFER A DICTATORSHIP HERE TO THE PRESENT SITUATION. I ASKED HOW SUCH A STRATEGY BY THE PCP (ASSUMING THAT IT LOSES) SQUARED WITH SOVIET CONCERN ABOUT EUROCOMMUNISM. SA CARNEIRO RESPONDED ALONG THE LINES THE PRESIDENT HAD SKETCHED FOR ME, I.E., THE STRATEGY IS IBERIAN RATHER THAN SOLELY PORTUGUESE. THE EMERGING OBJECTIVE OF THE PCP, HE SAID, IS TO PROVOKE A DICTATORSHIP HERE IN ORDER, INTER ALIA, TO DERAIL BOTH SANTIAGO CARRILLO AND SPANISH PROGRESS TOWARDS DEMOCRACY. SA CARNEIRO SAID IN ADDITION THAT THE PCP CORE WOULD BE MUCH MORE COMFORTABLE IN CLANDESTINITY AND THAT THE PCP OPPORTUNISTS COULD THEN FORM A "MARXIST-SOCIALIST" OR "EURO-COMMUNIST" PARTY.

6. HUMAN RIGHTS: SA CARNEIRO, LIKE MARIO SOARES, THOROUGHLY ENDORSED THE CARTER ADMINISTRATION'S POLICY ON HUMAN RIGHTS. HE SAID THE PSD INTENDS TO DEVELOP ITS OWN INITIATIVES IN THIS AREA AND THAT

CONFIDENTIAL

PAGE 03 LISBON 01952 02 OF 02 111447Z

HE HAD DISCUSSED THESE WITH BOTH SOARES AND EANES WHO FULLY SHARED HIS VIEW THAT THE DEMOCRATIC FORCES IN PORTUGAL SHOULD UNDERTAKE HUMAN RIGHTS INITIATIVES. HE WAS PARTICULARLY ENTHUSIASTIC ABOUT THE POSSIBILITY OF A VISIT BY ALLARD LOWENSTEIN AND ASKED THAT HE BE INCLUDED IN THE PROGRAM.

7. COMMENT: AS THE DEPARTMENT IS AWARE, SA CARNEIRO IS A MERCURIAL PERSONALITY WHO HAS HIS UPS AND DOWNS. HIS DIFFERENCES WITH SOARES HAVE BEEN BASED ON PERSONALITY AS WELL AS POLICY, SO IT IS PROBABLY PREMATURE TO ASSUME THAT ALL IS NOW SWEETNESS AND

LIGHT. NEVERTHELESS, THE SHARED REALIZATION OF THE GRAVITY OF PORTUGAL'S ECONOMIC SITUATION, COUPLED WITH WHAT SEEMS TO BE A JOINT ASSESSMENT BY THE DEMOCRATIC PARTIES' LEADERS THAT THE PCP IS EMBARKING ON A HARDER LINE, HAS ENGENDERED THIS COMMALITY OF SPIRIT. ONE CAN ONLY HOPE THAT THIS TIME IT WILL LAST.
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